Bitcoin's boom slowed by China's clampdown on crypto-currencies

By Stuart Lauchlan September 5, 2017

SUMMARY:

China's clampdown on crypto-currency has poured some cold water onto the boom enjoyed by the likes of Bitcoin. Maybe not before time?

Blockchain CEO Peter Smith recently came out with a bold prediction when asked how long it might be before a national government would launch its own digital currency:

> *24 months from a major government — not from a little one but a major one.*

If Smith is correct, the next question is which government it will be? That remains to be seen, but events yesterday might lead some to suggest it won't be China!

Authorities there have banned new projects raising cash or other virtual currencies through crypto-currencies and plan to crack down on related fraudulent practices.

The decison hinges on the status of Initial Coin Offerings (ICO), a method for start-ups to raise funds. Investors cough up cash in return for virtual coinage instead of stocks or shareholdings. These coins can then be traded on crypto-currency exchanges.

Research from analysts at CoinDesk found that ICOs have been responsible for raising more than $1.5 billion in capital in the year to date. The level of interest in the ICO model can be gauged from a note to clients by Goldman Sachs which observed that in June this year ICO funding levels topped those of traditional angel and venture funding.

As the share price of the likes of Bitcoin fell on the news, the Chinese Central Bank declared that ICOs are:

> "
> *essentially a non-approved illegal open financing behavior, suspected of illegal sale tokens, illegal securities issuance and illegal fund-raising, financial fraud, pyramid schemes and other criminal activities.*

The People's Bank of China estimates that as much as 90% of ICOs to date have involved fraudulent activities.

This isn't the first time the Chinese authorities have taken action. Back in January, warnings were issued to a number of digital currency exchanges that they faced a clampdown if suspicions of money-laundering breaches were confirmed.

Monday's clampdown also calls for a refund of funds paid out as part of ICO schemes to date:

> "
> *The organizations and individuals who have completed the financing of the tokens should make arrangements for repatriation and so on, reasonably protect the interests of investors and properly handle the risks.*

Concern

Other countries regulators have also taken a dim view of ICOs. In July the US Securities and Exchange Commission (SEC) called for greater regulatory oversight of firms seeking funding via crypto-currencies, with Enforcement Division Co-Director Stephanies Avakian warning:

> "
> *The innovative technology behind these virtual transactions does not exempt securities offerings and trading platforms from the regulatory framework designed to protect investors and the integrity of the markets.*

The Monetary Authority of Singapore (MAS), Singapore's central bank, said last month that:

> "
> *ICOs are vulnerable to money laundering and terrorist financing risks due to the anonymous nature of the transactions, and the ease with which large sums of monies may be raised in a short period of time.*

Meanwhile the the Securities and Futures Commission (SFC) in Hong Kong has backed China's cautious stance. Julia Leung, the SFC's Executive Director of Intermediaries, said:

> "
> *We are concerned about an increase in the use of ICOs to raise funds in Hong Kong and elsewhere. Those involved in an ICO need to be aware that some ICO structures may be subject to Hong Kong securities laws.*

The SFC issued guidance to back up Leung's statement, including:

> "
> *Investors should also be mindful of the potential risks involved in ICOs and investment arrangements involving digital tokens. As these arrangements and the parties involved operate online and may not be regulated, investors may be exposed to heightened risks of fraud. Digital tokens traded on a secondary market may give rise to risks of insufficient liquidity or volatile and opaque pricing. Investors should fully understand the features of any products or business projects they intend to invest in, and carefully weigh the risks against the return before making an investment.*

And Kim Yong-beom, Secretary-General of the Financial Supervisory Commission (FSC) in South Korea said Monday that:

> "
> *At this point, digital currencies cannot be considered money.*

My take

Innovative funding model to support start-ups in the digital age? Or a pyramid scheme by any other name? It's too early to make the final judgement call on ICOs, but the caution shown by regulators is understandable. Firms like Bitcoin have seen their stock price and valuations soaring in recent months. Prior to yesterday, Bitcoin had passsed a $5000 share price for the first time. The Chinese decision isn't about to kill off the sector they operate in, but it might give it a timely cooling-off and period for thought.

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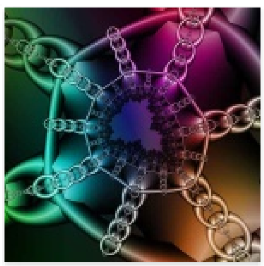

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